



U.S. Securities and Exchange Commission

Los Angeles Regional Office
Rosalind R. Tyson, Regional Director



**State of California
Department of Corporations**

Preston Dufauchard
California Corporations Commissioner

FOR IMMEDIATE RELEASE

**SEC PARTNERS WITH STATE OF CALIFORNIA TO HALT \$21 MILLION
FRAUD INVOLVING BIOTECH INVESTMENT FUNDS**

Los Angeles, Calif., June 10, 2008 - The Securities and Exchange Commission and the California Department of Corporations today announced separate actions charging advisory firm Lincoln Funds International, Inc. and its three principals who raised at least \$21 million from nearly 400 investors nationwide in an alleged securities fraud scheme that involved its biotechnology investment fund companies.

According to the Commission's complaint, filed in U.S. District Court in Orange County, one of the defendants, James L. DeMers, age 64, of Cerritos, Calif., cleaned out all of the cash in the Lincoln Funds' accounts earlier this month by transferring approximately \$2.9 million to his own separate company. The SEC obtained a temporary restraining order, asset freeze and other emergency relief in a civil action to halt the defendants' fraudulent activities and strip them of any ill-gotten gains. Simultaneous with the filing of the Commission's complaint on June 6, the California Department of Corporations issued an Order against two of the individuals and Lincoln Funds ordering them to desist and refrain from offering, buying or selling securities in the state by means of any false or misleading statements.

Rosalind R. Tyson, Regional Director of the Commission's Los Angeles Regional Office, said, "We applaud the actions taken by the California Department of Corporations in working with us to protect investors. The Commission's application for a TRO represents our continued commitment to promptly shutting down promoters who make unsubstantiated promises to investors and go to considerable lengths to conceal their disciplinary histories when they are entrusted with managing investor funds."

The Commission's complaint charges Lincoln Funds and its predecessor, Brookstone Capital, Inc., both based in Costa Mesa, Calif., and their principals, Robert L. Carver, age

53, of Irvine, Calif., his son Robert L. Carver, II, age 34, of Irvine, Calif., and DeMers. The complaint also names as relief defendants Lincoln Biotech Ventures LP, Lincoln Biotech Ventures II, and LP Lincoln Biotech Ventures III LP -- the three biotechnology venture funds created and controlled by the defendants. Also named is MacAuslan Capital Partners, LLC, a company controlled by DeMers. These relief defendants held cash or other assets acquired from investor proceeds. Robert Carver has been the subject of at least five state administrative orders including three by the California Department of Corporations since 1996.

The Commission's complaint alleges that since April 2004, the defendants sold securities in Brookstone Capital, Lincoln Funds, and three Lincoln Biotech Venture funds created purportedly for making biotechnology-related investments. The defendants enticed investors by dangling the prospect of an upcoming initial public offering in Brookstone Capital and later, Lincoln Funds, when they knew full well that no steps had been taken for this purpose. The complaint further alleges that the defendants made baseless predictions about the eight- to ten-fold appreciation in the entities' projected stock price, and engaged in a sham transaction designed to hold Lincoln Funds out as a company with no connection to Brookstone Capital or Carver, which were subjects of state regulatory orders. The defendants additionally concealed Carver's prior criminal record, and failed to invest investor funds in biotechnology ventures, as promised. At least \$2.5 million of the proceeds remain unaccounted for.

Acting on the Commission's lawsuit, on June 6, 2008, the Honorable Judge Cormac J. Carney, United States District Judge for the Central District of California, granted the Commission's application for a temporary restraining order against the defendants and issued orders freezing the defendants' and relief defendants' assets and prohibiting the destruction of documents. The Court also appointed James H. Donell as the temporary receiver over the assets of Brookstone Capital, Lincoln Funds, and its affiliates, including the three Lincoln Biotech Venture funds. The Court ordered the temporary restraining order and asset freeze to remain in effect until June 19, 2008, on which date the Court will hold a hearing on the Commission's motion for a preliminary injunction and appointment of a permanent receiver at 10:00 a.m. In addition to emergency relief, the Commission's complaint seeks preliminary and permanent injunctions, repayment of all ill-gotten gains, and also civil penalties.

The Commission's complaint alleges that all of the defendants violated the antifraud provisions of Section 17(a) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, Sections 206(1) and (2) of the Investment Advisers Act of 1940, and the securities registration provisions of Sections 5(a) and 5(c) of the Securities Act. Additionally, the complaint alleges that all three individuals violated the broker-dealer registration provisions of Section 15(a) of the Exchange Act. Finally, the Commission alleges that Lincoln Funds and DeMers violated Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder.

The SEC acknowledges the assistance of the Alabama Securities Commission and the National Futures Association in this investigation.

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